

**MINISTRY OF AGRICULTURE, FORESTRY AND
WATER MANAGEMENT
DIRECTORATE for WATER, SERBIA**

Credit Number: 8449 YF

**FLOODS EMERGENCY RECOVERY PROJECT (FERP)
Component 3**

**Statement of Sources and Uses of Funds,
Statement of Expenditures,
Special Account Statement,
Local Currency Sub-Account Statement
and Notes to the Statements**

**For the Period from January 1 through December 31, 2017 and
Independent Auditors' Report**

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INDEPENDENT AUDITOR'S REPORT

To the Management of the Project Implementation Unit at the Ministry of Agriculture and Environmental Protection, Directorate for Water, Serbia, Belgrade:

We have audited the accompanying Statement of Sources and Uses of Funds, Statement of Expenditures and Special Account Statement of the Project "Floods Emergency and Recovery Project-Component 3" (the "Project") financed under the funds provided by the International Bank for Reconstruction and Development ("IBRD") Loan No. 8449 YF for the period from January 1, 2017 through December 31, 2017. The Statement of the Sources and Uses of Funds, Statement of Expenditures and Special Account Statement (collectively refer to as the "Statements") have been prepared by the Project Implementation Unit established at the Ministry of Agriculture and Environmental Protection, Directorate for Water (PIU), using the cash receipts and disbursement basis.

Management's Responsibility for the Statements

PIU is responsible for the preparation of these Statements of the Project in accordance with the cash receipts and disbursement basis, and for such internal control as management determines is necessary to enable the preparation of Statements of the Project that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these Statements of the Project based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Statements of the Project are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statements of the Project. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statements of the Project, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the management's preparation of the Statements of the Project in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the management's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Statements of the Project.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Statements of the Project present fairly, in all material respects, the sources and application of funds and expenditure details, as well as of the movements in the Special Account of the Project financed under the funds of the IBRD Loan No. 8449 YF from the period from January 1, 2017 through December 31, 2017, in accordance with the cash receipts and disbursements basis as described in Note 3.

Basis of Accounting and Restriction on Distribution

The basis of accounting is described in Note 3.2 to the Statements. The Statements are prepared for the information and use of the PIU and International Bank for Reconstruction and Development (IBRD). Our report should not be disclosed to other than mentioned party and we accept no responsibility for any such action.




Deloitte d.o.o.
Belgrade
July 13, 2018

STATEMENT OF SOURCES AND USES OF FUNDS – COMPONENT 3
 As of and for the Period from January 1 through December 31, 2017
 (In EUR)

	January 1 - December 31, 2017	January 1 - December 31, 2016	March 6 - December 31, 2015	Total for the Period from March 6, 2015 through December 31, 2017
PROJECT FINANCING				
IBRD funds	9,157,300	2,938,052	4,000,000	16,095,352
TOTAL FINANCING	9,157,300	2,938,052	4,000,000	16,095,352
PROJECT EXPENDITURES				
<i>1) Subcomponent 3A: Investments in Flood Protection</i>				
Works	(7,287,968)	(4,421,765)	(166,638)	(11,876,371)
Supervision	(399,071)	(307,688)	-	(706,759)
	(7,687,039)	(4,729,453)	(166,638)	(12,583,130)
<i>2) Subcomponent 3B: Institutional Support for Flood Management and Disaster Resilience</i>				
PIU Staff & Consulting Services	(211,274)	(213,245)	(193,399)	(617,918)
Office equipment	(177)	(5,631)	-	(5,808)
Operating Costs	(26,272)	(28,015)	(22,963)	(77,250)
Project financial audit	(7,520)	(17,881)	-	(25,401)
	(245,243)	(264,772)	(216,362)	(726,377)
TOTAL EXPENDITURES	(7,932,282)	(4,994,225)	(383,000)	(13,309,507)

Approved by:


 Natasa Milic, Acting Director
 Directorate for Water

Belgrade
 July 13, 2018



STATEMENT OF EXPENDITURES – COMPONENT 3
 As of and for the Period from January 1 through December 31, 2017
 (In EUR)

	Base Cost- Amended	Disbursements for the period from January 1,2017 through December 31, 2017	Disbursements for the period from January 1,2016 through December 31, 2016	Disbursements for the period from March 6,2015 through December 31, 2015	Total Disbursements for the Period from March 6, 2015 through December 31, 2017	Undisbursed Funds (Base Cost less Actual Disbursements)
1) <i>Subcomponent 3A: Investments in Flood Protection</i>						
Works	12,270,000	7,287,968	4,421,765	166,638	11,876,371	393,629
Supervision	500,000	399,071	307,688	-	706,759	(206,759)
Goods	1,400,000	-	-	-	-	1,400,000
Unallocated	1,030,000	-	-	-	-	1,030,000
Total (Subcomponent 3A)	15,200,000	7,687,039	4,729,453	166,638	12,583,130	2,616,870
2) <i>Subcomponent 3B: Institutional Support for Flood Management and Disaster Resilience</i>						
PIU Staff & Consulting Services	750,000	211,274	213,245	193,399	617,918	132,082
Operating Costs	540,000	33,969	51,527	22,963	108,458	431,541
Unallocated	230,300	-	-	-	-	230,300
Total (Subcomponent 3B)	1,520,300	245,243	264,772	216,362	726,377	793,923
Reallocation funds	17,363,704	-	-	-	-	17,363,704
Total (3A+3B+Reallocation funds)	34,084,004	7,932,282	4,994,225	383,000	13,309,507	20,774,497

SPECIAL ACCOUNT STATEMENT – COMPONENT 3
As of and for the Period from January 1 through December 31, 2017 (In EUR)

Special Account no.: 01-504635-100193230-0-0
 Depository Bank: National Bank of Serbia
 Currency: EUR

	January 1 - December 31, 2017	January 1 - December 31, 2016	March 6 - December 31, 2015	Total
Opening balance	1,271,000	3,617,000		
<i>Inflows to EUR account</i>				
Inflows untill December 31,2015	-	-	4,000,000	4,000,000
Inflows from January 1 through December 31, 2016		2,938,052	-	2,938,052
January 26, 2017	2,056,173	-	-	2,056,173
July 7, 2017	1,737,501	-	-	1,737,501
October 13, 2017	2,691,814	-	-	2,691,814
December 11, 2017	2,671,812	-	-	2,671,812
Total inflows to EUR account	9,157,300	2,938,052	4,000,000	16,095,352
<i>Transfers from EUR to RSD account</i>				
Transfers untill December 31,2015	-	-	(383,000)	(383,000)
Transfers from January 1 through December 31, 2016	-	(5,284,052)	-	(5,284,052)
February 13, 2017	(80,000)	-	-	(80,000)
February 24, 2017	(447,173)	-	-	(447,173)
April 21, 2017	(200,000)	-	-	(200,000)
April 27, 2017	(250,000)	-	-	(250,000)
May 9, 2017	(70,000)	-	-	(70,000)
May 25, 2017	(120,000)	-	-	(120,000)
May 30, 2017	(330,000)	-	-	(330,000)
June 14, 2017	(230,000)	-	-	(230,000)
June 23, 2017	(1,600,000)	-	-	(1,600,000)
August 14, 2017	(1,037,501)	-	-	(1,037,501)
October 3, 2017	(700,000)	-	-	(700,000)
October 16, 2017	(2,691,814)	-	-	(2,691,814)
Total transfers from EUR account	(7,756,488)	(5,284,052)	(383,000)	(13,423,540)
Closing balance	2,671,812	1,271,000	3,617,000	2,671,812

LOCAL CURRENCY SUB-ACCOUNT STATEMENT – COMPONENT 3
As of and for the Period from January 1 through December 31, 2017 (In EUR)

Local Currency Sub-Account No.: 148431102/840
 Depository Bank: Ministry of Finance – Treasury Department
 Currency: EUR

	January 1 - December 31, 2017	January 1 - December 31, 2016	March 6 - December 31, 2015	Total
Opening balance	289,827	-	-	-
<i>Inflows to RSD account</i>				
Inflows until December 31, 2015	-	-	383,000	383,000
Inflows from January 1 through December 31, 2016	-	5,284,052	-	5,284,052
February 13, 2017	80,000	-	-	80,000
February 24, 2017	447,173	-	-	447,173
April 21, 2017	200,000	-	-	200,000
April 27, 2017	250,000	-	-	250,000
May 9, 2017	70,000	-	-	70,000
May 25, 2017	120,000	-	-	120,000
May 30, 2017	330,000	-	-	330,000
June 14, 2017	230,000	-	-	230,000
June 23, 2017	1,600,000	-	-	1,600,000
August 14, 2017	1,037,501	-	-	1,037,501
October 3, 2017	700,000	-	-	700,000
October 16, 2017	2,691,814	-	-	2,691,814
<i>Total inflows to RSD account</i>	7,756,488	5,284,052	383,000	13,423,540
<i>Outflows</i>				
Payments for Project expenditures	(7,932,282)	(4,994,225)	(383,000)	(13,309,507)
Closing balance	114,033	289,827	-	114,033

LOCAL CURRENCY SUB-ACCOUNT STATEMENT – COMPONENT 3 (Continued)
As of and for the Period from January 1 through December 31, 2017 (In thousand RSD)

Local Currency Sub-Account No.: 148431102/840
 Depository Bank: Ministry of Finance – Treasury Department
 Currency: RSD

	January 1 - December 31, 2017	January 1 - December 31, 2016	March 6 - December 31, 2015	Total
Opening balance	35,667	-	-	-
<i>Inflows to RSD account</i>				
Inflows untill December 31,2015	-	-	46,093	46,093
Inflows from January 1 through December 31, 2016	-	648,846	-	648,846
February 13, 2017	9,892	-	-	9,892
February 24, 2017	55,259	-	-	55,259
April 21, 2017	24,634	-	-	24,634
April 27, 2017	30,722	-	-	30,722
May 9, 2017	8,591	-	-	8,591
May 25, 2017	14,691	-	-	14,691
May 30, 2017	40,384	-	-	40,384
June 14, 2017	28,065	-	-	28,065
June 23, 2017	194,223	-	-	194,223
August 14, 2017	123,783	-	-	123,783
October 3, 2017	83,174	-	-	83,174
October 16, 2017	320,256	-	-	320,256
<i>Total inflows to RSD account</i>	933,673	648,846	46,093	1,628,612
<i>Outflows</i>				
Payments for Project expenditures	(955,773)	(613,179)	(46,093)	(1,615,045)
<i>Total transfers from RSD account</i>	(955,773)	(613,179)	(46,093)	(1,615,045)
Closing balance	13,566	35,667	-	13,566

NOTES TO THE STATEMENTS – COMPONENT 3

As of and for the Period from January 1 through December 31, 2017

1. GENERAL INFORMATION

On October 9, 2014 a loan agreement was executed by and between the Republic of Serbia, as the Borrower, and the International Bank for Reconstruction and Development (IBRD), as the Lender, towards the cost of Serbia Flood Emergency Recovery Project. The Project Agreement became effective on March 6, 2015, by confirmation letter from IBRD on fulfillment of all conditions for Project effectiveness.

The Project value totals EUR 227,480,000 and includes:

- Component 1 Energy Sector Support - EUR 157,107,000;
- Component 2 Agriculture Sector Support - EUR 53,084,000;
- Component 3 Flood Protection - EUR 16,720,300;
- Component 4 Contingent Emergency Response with an allocation of EUR zero is defined for situations of a future adverse natural or man-made event that causes a major disaster; when the Government of Serbia may request the funds to be reallocated from other components to these components to partially cover emergency response and recovery costs. This component could also be used to channel additional funds should they become available as a result of the emergency.

The closing date of the Project is December 31, 2017.

On June 1, 2017 a Loan Agreement was amended to reallocate the Loan Proceeds and extend the closing date. The new closing date is October 31, 2019 and the value of reallocation funds from component 1 to component 3 is 17,363,704 EUR. The Project value after amendment includes:

- Component 1 Energy Sector Support - EUR 139,743,296;
- Component 2 Agriculture Sector Support - EUR 53,084,000;
- Component 3 Flood Protection - EUR 34,084,004;
- Component 4 Contingent Emergency Response with an allocation of EUR zero is defined for situations of a future adverse natural or man-made event that causes a major disaster; when the Government of Serbia may request the funds to be reallocated from other components to these components to partially cover emergency response and recovery costs. This component could also be used to channel additional funds should they become available as a result of the emergency.

The Project beneficiaries are the country's overall population who will benefit from an increased security of domestic food supply for the affected population, restored flood prevention facilities, and improved response to disasters. It is also expected that 1,6 million people living in the flood affected areas, especially those living in rural areas, will benefit from the Project's activities.

2. OBJECTIVES AND NATURE OF THE PROJECT

The objective of the component 3 is to support urgent rehabilitation of the flood protection and drainage control infrastructure, under the principle of "building back better" through solutions which enhance the function and effectiveness of the existing flood protection facilities (e.g. through heightening and improving design and construction standards). This component will also strengthen the technical capacity of the government agencies for improved flood prevention and management.

The key objectives are the following:

- (a) protect livelihoods of farmers in flood affected areas;
- (b) protect people and assets from floods;
- (c) improve the Borrower's capacity to respond effectively to disasters.

NOTES TO THE STATEMENTS – COMPONENT 3

As of and for the Period from January 1 through December 31, 2017

2. OBJECTIVES AND NATURE OF THE PROJECT (Continued)

The flood protection component 3 consists of the following two subcomponents:

- Subcomponent 3A: Investments in flood protection (EUR 15,200,000);
- Subcomponent 3B: Institutional support for flood management and disaster resilience (EUR 1,520,300).

Allocation of additional funds based on the Loan Agreement amendment (Note 1), in the amount of EUR 17,363,704, per subcomponents and projects is still in the proces.

Subcomponent 3A: Investments in flood protection

The aim of the proposed investments is to reduce imminent risk of recurring floods by restoring and/or improving the function of the existing infrastructure. Physical investments proposed under this component include civil works, supply and installation of electrical and mechanical equipment, for the rehabilitation and reconstruction of flood protection and drainage systems, including flood protection dikes/levees and retention systems, cleaning and restoration of drainage canals, and refurbishment of pump stations. The proposed investments concentrate on areas known to be vulnerable and affected by flooding, in which urgent protection is required in order to reduce the risk of future flooding and further devastating social and economic impacts.

Subcomponent 3B: Institutional support for flood management and disaster resilience

This Subcomponent covers the incremental costs (staff, consultants, equipment, operating costs, etc.) of the Project Implementation Unit (PIU) established under the Directorate for Water. High priority technical assistance and capacity building activities will be selected to improve flood management, planning, prevention and resilience. It could include financing hydrological and hydraulic diagnostics of recent flood events, structural / safety inspections of major flood protection infrastructure, a review of design standards and planning norms for flood protection, and a review of existing disaster risk management (DRM) strategies/plans and institutional framework and capacity constraints to enable effective integrated flood management and broader DRM.

3. PROJECT MANAGEMENT

The Public Investment Management Office (successor of the Office for Reconstruction) is responsible for overseeing the Project implementation.

The Project Implementation Unit (PIU) established under the Ministry of Agriculture and Environmental Protection - Directorate for Water is responsible for technical implementation of the Components 3 of the Project which includes procurement, contract management, financial management, disbursement, safeguards and monitoring and evaluation.

PIU was established with a similar form and function to that which was previously utilized under the recently completed World Bank financed Irrigation and Drainage Rehabilitation Project (IDRP). Additional consultants will be engaged to provide technical support to the PIU as needed.

NOTES TO THE STATEMENTS – COMPONENT 3

As of and for the Period from January 1 through December 31, 2017

4. PROJECT COST

Project funds are allocated (Note 1) as presented in the review below:

	Project funds (EUR)
<i>Subcomponent 3A: Investments in Flood Protection</i>	
Works	12,270,000
Supervision	500,000
Goods	1,400,000
Unallocated	1,030,000
Total (Subcomponent 3A)	15,200,000
<i>Subcomponent 3B: Institutional Support for Flood Management and Disaster Resilience</i>	
PIU Staff & Consulting Services	750,000
Operating Costs	540,000
Unallocated	230,300
Total (Subcomponent 3B)	1,520,300
Reallocation funds	17,363,704
Total (Subcomponent 3A+3B)	34,084,004

Reallocation funds, in the amount of EUR 17,363,704 are not yet allocated per subcomponents and projects. The process of allocation is in the progress.

5. INVESTMENTS

Indicative List of Priority Investments proposed under the Project was:

Contract / Description	Cost Estimate (mil EUR)	Contract Period
Flood Protection of Novi Pazar settlement including regulation and embankment protection of Raska River and its tributaries. Section I: from Careva Cuprija to mouth of the Banjska River (2.15 km)	1,8	16 months
Flood Protection of Aleksinac settlement including regulation and embankment works on Moravica river through Aleksinac town from km 2+370 to km 3+100 providing the flow capacity for the high water at upstream section from km 3+100 to km 3+950, and downstream section from km2+000 to km 2+370	1,4	18 months
Flood Protection of Smederevska Palanka settlement including reconstruction of regulation works at Jasenica river and dike (from km 10 +235 to 19+300) for protecting of the river flow capacity in the upstream section (from km 19+300 to km 24+454)	1,5	18 months
Flood Protection of Negotin area including reconstruction of protective system in Radujevac including embankment construction works (2,7km)	1,1	14 months
Construction of flood protection system for Donji Ljubes settlement including reconstruction of the left bank embankment (16,7km) of the river Južna Morava with left bank protection(1,1km)	2,3	19 months
Rehabilitation of Tamis dike including heightening of 1m for 13.5 km section.	2,5	18 months
Erosion protection and rehabilitation works on the left bank on the Sava River on section km 174+000 to km178+500	0,07	9 months
Rehabilitation of the left bank embankment on the Danube River on section B. Palanka town(km 1+800 to km 9+850) and Sombor town (km 3+461 to km 6+583 and km 49+410 to km 52+400)- embankment crest stabilization (asphaltic road)	1,6	13 months
Supply and installation for equipment for flood control and protection	1,4	6 months
Construction supervision for flood protection works	0,5	24 months

Two Investments for works (Tamis and Sava River) have been replaced with project on the river Nisava, Nis. The two deleted projects did not have any level of readiness neither chance to achieve it during the lifetime of the Project.

NOTES TO THE STATEMENTS – COMPONENT 3

As of and for the Period from January 1 through December 31, 2017

5. INVESTMENTS (Continued)

Progress of works under the Component 3

#	Description	Signing date	Contract amount/ Contract amount + Amendments	Total paid in RSD	Total paid in EUR
1	Flood Protection of Negotin area including reconstruction of protective system in Radujevac including embankment construction works (2,7km)	05.10.2015	105,147,944	118,409,008	967,546
			118,409,008		
2	Flood Protection of Aleksinac settlement including regulation and embankment works on Moravica river through Aleksinac town from km 2+370 to km 3+100 providing the flow capacity for the high water at upstream section from km 3+100 to km 3+950, and downstream section from km2+000 to km 2+370	18.01.2016	146,261,414	159,240,464	1,296,160
			167,937,025		
3	Construction of flood protection system for the city of NIS	18.01.2016	370,780,904	336,160,845	2,769,413
			424,993,887		
4	Flood Protection of Novi Pazar settlement including regulation and embankment protection of Raska River and its tributaries. Section I: from Careva Cuprija to mouth of the Banjska River (2.15 km)	25.02.2016	219,954,876	225,854,673	1,874,253
			267,761,678		
5	Construction of flood protection system for Donji Ljubes settlement including reconstruction of the left bank embankment (16,7km) of the river Južna Morava with left bank protection(1,1km)	06.04.2016	467,869,685	438,389,707	3,620,427
			510,992,205		
6	Flood Protection of Smederevska Palanka settlement including reconstruction of regulation works at Jasenica river and dike (from km 10 +235 to 19+300) for protecting of the river flow capacity in the upstream section (from km 19+300 to km 24+454)	11.04.2016	149,400,984	162,594,133	1,348,572
			176,079,727		
7	Rehabilitation of the left bank embankment on the Danube River on section Bačka Palanka town(km 1+800 to km 9+850) and Sombor town (km 3+461 to km 6+583 and km 49+410 to km 52+400)-embankment crest stabilization (asphaltic road)				
TOTAL:				1,440,648,830	11,876,371

Tender procedures ongoing

NOTES TO THE STATEMENTS – COMPONENT 3

As of and for the Period from January 1 through December 31, 2017

6. PROJECT DEVELOPMENTS

The Project is carried out with due diligence and efficiency, and in conformity with appropriate administrative, financial, environmental and technical practices.

Total disbursement for the Component 3 of the Project as of December 31, 2017 amounted to 13,3 million EUR or 80 % of the original credit amount for this component (39% of the amended amount for this component).

Procurement procedure for works on rehabilitation of the left bank embankment on the Danube River in Bačka Palanka and Sombor is in initial phase.

7. BASIS OF PREPARATION OF THE STATEMENTS AND ACCOUNTING CONVENTION

7.1. General

The accompanying Statements have been prepared for the purposes of reporting to the Lender on the activities of the Project related to funding received for the completion of the Project objectives in accordance with the Contract.

7.2. Accounting Records and Basis of Presentation

Funds received from the Lender are accounted for using the cash receipt and disbursement basis. On this basis, funds are recognized by the Project when actually received on the special bank account in EUR held with the National Bank of Serbia (NBS), and expenses are recognized when paid, rather than when incurred. PIU maintain a list with all payments made out of the Designated Account, which is used for SOE reconciliation.

Original documentation is located in the PIU to facilitate auditing, preparation of the Project Financial Statements and preparation of reports to the World Bank, the Ministry of Finance (MoF) and other ministries and agencies who are involved in implementation of the project.

7.3. Exchange Rates

The funds disbursed under the IBRD Loan and the related inflows in RSD were translated into EUR at NBS buying exchange rate in effect on the date of each transfer to the RSD account.

Expenses incurred and paid in Serbian Dinars (RSD) from the Special Account were translated into EUR at NBS buying exchange rate in effect at the date of each transfer of funds to the RSD account.